



## Media Release

### **RAM Ratings Lanka upgrades PMFC's ratings to BBB-/P3**

RAM Ratings Lanka has upgraded People's Merchant Finance Company Ltd's ("PMFC" or "the Company") long-term financial institution rating by 4 notches, from B+ to BBB-, with a stable outlook. Its short-term rating has also been revised from NP to P3. Concurrently, the Rating Watch (with a developing outlook) on PMFC's rating has been lifted. The steep upward revision of the Company's ratings is premised on the financial flexibility derived from its new ultimate, state-owned parent, People's Bank ("PB" or "the Bank").

PMFC is a small registered finance company ("RFC") that falls within the regulatory purview of the Central Bank of Sri Lanka ("Central Bank"); the Company had an asset base of LKR 299.67 million as at end-March 2009. In March 2009, People's Merchant Bank PLC ("PMB") acquired 44.02% of PMFC. About 3 months later, PMB raised its stake to 99.90%, and renamed the Company as PMFC. In mid-October, PMB announced that it intended to amalgamate the assets and liabilities of PMFC by FYE 31 March 2010 ("FY Mar 2010"). PMB is an associate company of People's Bank (which owns a 39.20% stake), the second largest commercial bank in Sri Lanka. PMB's shares are listed on the Colombo Stock Exchange. PMB is presently a small specialised leasing company ("SLC"), with an asset base of LKR 2.84 billion; it too comes under the regulatory umbrella of the Central Bank.

PMB's largest funding source is its ultimate parent, PB. As at end-March 2009, the Bank had extended LKR 660 million of facilities to PMB; this accounted for approximately 45% of the latter's bank borrowings. In addition, PMB has announced a rights issue for which its parent has already pledged support. PMB intends to raise LKR 250 million to retire its outstanding debentures and other short-term borrowings.

While we note that the integration process is likely to introduce additional risks, we also acknowledge that the quality of PMFC's loans is poised to improve as it adopts PMB's underwriting standards. PMB implements a more stringent 3-month classification policy when it comes to recognising non-performing loans ("NPLs"). That said, its absolute gross NPLs surged 285.02% (annualised) to LKR 700.51 million as at end-September 2009, and is viewed with concern. Although this had been largely due to weaker economic fundamentals, RAM Ratings Lanka expects the Company's NPLs to ease over the medium term, in line with the expected economic recovery.

On a separate note, the assets and liabilities of PMFC will be absorbed by PMB after the merger; PMFC will cease to exist after that. Under the circumstances, RAM Ratings Lanka would no longer have any rating obligations on PMFC.

---

The credit rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or its suitability for a particular investor, nor does it involve any audit by RAM Ratings Lanka. The credit rating also does not reflect the legality and enforceability of financial obligations, transfer and convertibility risks, repatriation risk, currency risk or any other risk apart from credit risk.

RAM Ratings Lanka receives compensation for its rating services, normally paid by the issuers of such securities or the rated entity, and sometimes third parties participating in marketing the securities, insurers, guarantors, other obligors, underwriters, etc. The receipt of this compensation has no influence on RAM Ratings Lanka's credit opinions or other analytical processes. In all instances, RAM Ratings Lanka is committed to preserving the objectivity, integrity and independence of its ratings. Rating

fees are communicated to clients prior to the issuance of rating opinions. While RAM Ratings reserves the right to disseminate the ratings, it receives no payment for doing so.

Published by RAM Rating Lanka Ltd

© Copyright 2009 by RAM Ratings Lanka

Analyst Contact  
Prakash Jerome  
prakash@ram.com.lk

**RAM Ratings (Lanka) Ltd**  
Wholly owned by  
RAM Holdings Berhad

No 9, Arthur's Place  
Colombo 4  
Sri Lanka

T +94 112 553089  
F +94 112 553090  
E [ram@ram.com.lk](mailto:ram@ram.com.lk)  
[www.ram.com.lk](http://www.ram.com.lk)